

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF BANGOR	County VAN BUREN
Fiscal Year End 6/30/2006	Opinion Date 12/15/2006	Date Audit Report Submitted to State 12/29/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

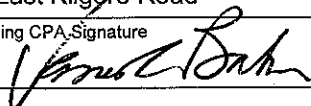
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NO MATTERS TO COMMUNICATE	
Other (Describe) SINGLE AUDIT REPORT	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Siegfried Crandall, PC		Telephone Number 269-381-4970	
Street Address 246 East Kilgore Road		City KALAMAZOO	State MI
Zip 49002			
Authorizing CPA Signature 		Printed Name JAMES C. BAKER, CPA	License Number 1101010743

City of Bangor
Van Buren County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended June 30, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Bangor
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Bangor, Michigan's (the City), financial performance provides a narrative overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased by \$903,484 (17.3 percent) as a result of this year's activities. Net assets of the governmental and business-type activities increased by \$211,740 and \$691,744, respectively.
- The increase in the net assets of the business-type activities was primarily due to a \$680,901 federal capital grant used to partially finance a sewer system upgrade and expansion project.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$332,893, which represents 39.2 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The City's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for other governmental funds and additional information regarding debt service requirements. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City, reporting the City's operations in more detail than the government-wide financial statements.
 - Governmental fund statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer and water systems.
 - Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-wide financial statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets (the difference between the City's assets and liabilities) are one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's capital assets.

The government-wide financial statements are divided into three categories:

- **Governmental activities** - Most of the City's basic services are included here, such as the police, fire, library, and general government. Property taxes and state grants finance most of these activities.
- **Business-type activities** - The City charges fees to customers to help it cover the costs of certain services it provides. The City's sewer and water systems are reported here.
- **Component units** - The City includes two other entities in its report - the Downtown Development Authority and the Economic Development Corporation. Although legally separate, these "component units" are important because the City is financially accountable for them.

Fund financial statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The City Council establishes other funds to control and manage money for particular purposes (like library maintenance) or to show that it is properly using certain taxes and other revenues (like property taxes collected for police, fire operations, senior services and hospital authorities, and state grants collected for the street funds).

The City has three kinds of funds:

Governmental funds - Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship between them.

Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

- In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

City of Bangor
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

- The City uses an internal service fund (the other type of proprietary fund) to report activities that provide services for the City's other programs and activities. The City's internal service fund consists of a Motor Pool Equipment Fund.

Fiduciary funds - These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The City's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Net assets. The City's combined net assets increased by 17.3 percent between June 30, 2005 and 2006. In comparison, last year nets assets increased by 69 percent. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two very different stories emerge. Our analysis below focuses on the net assets (table 1) and changes in net assets (table 2) for the City's governmental and business-type activities.

Table 1 - Net assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 528,039	\$ 674,531	\$ 300,790	\$ 796,455	\$ 828,829	\$ 1,470,986
Capital assets	<u>1,088,399</u>	<u>796,054</u>	<u>6,811,773</u>	<u>6,076,511</u>	<u>7,900,172</u>	<u>6,872,565</u>
Total assets	<u>1,616,438</u>	<u>1,470,584</u>	<u>7,112,563</u>	<u>6,872,966</u>	<u>8,729,001</u>	<u>8,343,551</u>
Long-term debt	184,379	226,601	2,305,842	2,363,059	2,490,221	2,589,660
Other liabilities	<u>60,026</u>	<u>83,691</u>	<u>41,788</u>	<u>436,718</u>	<u>101,814</u>	<u>520,409</u>
Total liabilities	<u>244,405</u>	<u>310,292</u>	<u>2,347,630</u>	<u>2,799,777</u>	<u>2,592,035</u>	<u>3,110,069</u>
Net assets:						
Invested in capital assets, net	904,020	569,453	4,505,931	3,713,452	5,409,951	4,282,905
Restricted	112,187	136,519	-	-	112,187	136,519
Unrestricted	<u>355,826</u>	<u>454,321</u>	<u>259,002</u>	<u>359,737</u>	<u>614,828</u>	<u>814,058</u>
Total net assets	<u>\$ 1,372,033</u>	<u>\$ 1,160,293</u>	<u>\$ 4,764,933</u>	<u>\$ 4,073,189</u>	<u>\$ 6,136,966</u>	<u>\$ 5,233,482</u>

Net assets of the City's governmental activities increased by \$211,740 (18.2 percent) to \$1,372,033. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, without constraints by debt covenants, enabling legislation or other legal requirements - decreased by \$98,495 (21.7 percent) to \$355,826.

City of Bangor
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Net assets of our business-type activities increased by \$691,744 (17.0 percent) to \$4,764,933. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints by debt covenants enabling legislation or other legal requirements, decreased by \$100,735 (28.0 percent) to \$259,002.

Table 2 - Change in net assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Program revenues:						
Federal grants	\$ 151,903	\$ 6,636	\$ 680,901	\$ 2,119,149	\$ 832,804	\$ 2,125,785
State grants	244,281	200,229	-	-	244,281	200,229
Local unit grants	24,606	19,580	-	-	24,606	19,580
Charges for services	109,276	102,038	564,241	570,578	673,517	672,616
General revenues:						
Property taxes	552,869	529,570	-	-	552,869	529,570
State grants	274,085	276,577	-	-	274,085	276,577
Interest	15,476	8,252	6,298	5,626	21,774	13,878
Franchise fees	27,934	13,247	-	-	27,934	13,247
Total revenues	<u>1,400,430</u>	<u>1,156,129</u>	<u>1,251,440</u>	<u>2,695,353</u>	<u>2,651,870</u>	<u>3,851,482</u>
Expenses:						
Public safety	483,645	440,322	-	-	483,645	440,322
Public works	376,338	390,375	-	-	376,338	390,375
Water	-	-	305,948	319,832	305,948	319,832
Sewer	-	-	288,748	267,797	288,748	267,797
General government	227,291	220,248	-	-	227,291	220,248
Recreation and culture	30,150	34,552	-	-	30,150	34,552
Health and welfare	14,435	13,704	-	-	14,435	13,704
Interest on debt	12,490	15,992	-	-	12,490	15,992
Legislative	9,341	8,862	-	-	9,341	8,862
Total expenses	<u>1,153,690</u>	<u>1,124,055</u>	<u>594,696</u>	<u>587,629</u>	<u>1,748,386</u>	<u>1,711,684</u>
Excess before transfers	246,740	32,074	656,744	2,107,724	903,484	2,139,798
Transfers	<u>(35,000)</u>	<u>-</u>	<u>35,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase in net assets	<u>\$ 211,740</u>	<u>\$ 32,074</u>	<u>\$ 691,744</u>	<u>\$ 2,107,724</u>	<u>\$ 903,484</u>	<u>\$ 2,139,798</u>

City of Bangor
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Changes in net assets. The City's total revenues for 2006 were \$2,651,870 (34.4 percent decrease). The total cost of all programs and services was \$1,748,386 (6.7 percent increase), with no new programs added this year.

When you factor out the effect of capital grants (\$860,540) on total revenues, it becomes clear that all other revenues increased by only \$58,996, or 3.4 percent between 2005 and 2006. Charges for services represented 37.6 percent of the remaining revenues (27.0 percent in 2005) and property taxes and grants (both program and general) accounted for 30.9 and 22.1 percent, respectively (30.6 and 27.5 percent, respectively in 2005).

The provision of public safety and public works represented 49.2 percent in 2006 (48.5 percent in 2005), and water and sewer utility services represented 34.0 percent (34.3 percent in 2005) of all costs.

While the City reports unrestricted net assets under both governmental and business-type activities, the unrestricted net assets of the business-type activities cannot be used to make up any net asset deficit in governmental activities. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental activities. Total revenues increased \$244,301 (21.1 percent), while total expenses increased \$29,635 (2.6 percent). Revenue increased in all categories, with the largest increases occurring in federal grants (\$145,267, including \$137,617 of capital grants), state grants (\$41,560, or 8.0 percent, including \$42,022 of capital grants) and property taxes (\$23,299, or 4.4 percent). Expenses increased in most categories, with the largest increase occurring in public safety (\$43,323, or 9.8 percent). This increase is the result of higher personnel costs.

Table 3 - Governmental activities

	<i>Total cost of services</i>		<i>Net cost of services</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Public safety	\$ 483,645	\$ 440,322	\$ (413,785)	\$ (375,907)
Public works	376,338	390,375	25,783	(155,096)
General government	227,291	220,248	(215,993)	(191,561)
Other	66,416	73,110	(19,632)	(73,008)
Total	<u>\$ 1,153,690</u>	<u>\$ 1,124,055</u>	<u>\$ (623,627)</u>	<u>\$ (795,572)</u>

Table 3 shows the costs of the City's three largest programs, as well as the net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the burden that was placed on the City's taxpayers by each of these functions.

The total cost of all governmental activities was \$1,153,690 compared to \$1,124,055 last year. The amount that our taxpayers ultimately financed for these activities through general revenues was \$623,627 because some of the cost was paid by those who directly benefited from the programs (\$109,276) or by other governments and organizations that subsidized certain programs with grants and contributions (\$420,787). The City paid for the \$623,627 "public benefit" portion with \$552,869 in taxes (some of which could only be used for certain programs) and with other revenues, such as state shared revenue and interest income.

Business-type activities. Revenues of the City's business-type activities decreased by \$1,443,914 (53.6 percent) to \$1,251,440 and expenses increased \$7,067 (1.2 percent) to \$594,696. The key factor for the decrease in revenue was the decrease of \$1,438,248 in federal capital grants.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds. As of June 30, 2006, its governmental funds (as presented on page 7) reported a combined fund balance of \$445,092, a decrease of \$116,192 from last year's balance. The General Fund experienced the largest decrease (\$91,968) primarily due to transfers to the Major Street, Local Street and Sewer Funds in the amount of \$124,000. In addition, these other changes in fund balances should be noted:

- The fund balance of the General Fund otherwise increased by \$33,132 reflecting spending that lagged slightly behind revenues of the current period.
- Special revenue Major Street Fund funds increased by \$29,171 reflecting spending that lagged behind revenues and transfers in.
- Special revenue Local Street Fund funds decreased by \$59,673 primarily due to intentional use of carryover monies to fund current road maintenance projects not financed by current year revenues and transfers in.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, unreserved fund balance was \$332,893, which represents 39.2 percent of the actual total General Fund expenditures for the current fiscal year. The fund balance of the General Fund represents 74.8 percent of the combined ending fund balances of the governmental funds.

General Fund budgetary highlights

The difference between the original budget and the final amended budget for expenditures was an increase of \$137,041, primarily due to expected increases in public safety, recreation and culture, and capital outlay expenditures. Actual total expenditures exceeded the final total budget by only \$5,952.

City of Bangor
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital assets and debt administration

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounted to \$7,929,390 (net of accumulated depreciation). This investment includes a broad range of assets including land, equipment, buildings, roads, and sewer and water facilities.

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Infrastructure	\$ 427,591	\$ 219,885	\$ 6,719,442	\$ 1,227,257	\$ 7,147,033	\$ 1,447,142
Buildings and improvements	531,389	459,379	-	-	531,389	459,379
Equipment	101,077	88,448	31,404	33,269	132,481	121,717
Construction in progress	-	-	-	4,755,058	-	4,755,058
Land	<u>28,342</u>	<u>28,342</u>	<u>60,927</u>	<u>60,927</u>	<u>89,269</u>	<u>89,269</u>
Total	\$ 1,088,399	\$ 796,054	\$ 6,811,773	\$ 6,076,511	\$ 7,900,172	\$ 6,872,565

The increase in the City's net investment in capital assets for the current fiscal year was \$1,027,607 or 15 percent. Major capital asset events during the current fiscal year included the following:

- Wastewater collection and treatment facility improvement project, financed with grants and bonds from the U.S. Department of Agriculture - \$774,185.
- Arlington Road improvements - \$184,186, financed with federal grants and local monies
- Other road improvements - \$47,002, financed with state grants
- Railroad depot improvements, financed with state grants and local monies - \$42,022.
- New police vehicle - \$22,160, financed with available resources of the internal service fund.

The wastewater project was completed during the fiscal year.

More detailed information about the City's capital assets is presented in Note 5 of the basic financial statements.

Debt administration

At the end of the fiscal year, the City had total long-term bonds and notes outstanding in the amount of \$2,490,221, which represents a decrease of \$99,439 (3.8 percent). No new debt was issued this year. All debt is backed by the full faith and credit of the City.

City of Bangor
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

State statutes limit the amount of general obligation debt the City can issue to 10 percent of its total state equalized assessed value of property. The City's total general obligation debt (\$246,221) is significantly lower than the current state-imposed limit of \$3,337,410.

Table 5 - Outstanding debt at year-end

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General obligation debt (backed by the City)	\$ 184,379	\$ 226,601	\$ 61,842	\$ 97,059	\$ 246,221	\$ 323,660
Revenue bonds (backed by specific fees)	<u>-</u>	<u>-</u>	<u>2,244,000</u>	<u>2,266,000</u>	<u>2,244,000</u>	<u>2,266,000</u>
Total	<u>\$ 184,379</u>	<u>\$ 226,601</u>	<u>\$ 2,305,842</u>	<u>\$ 2,363,059</u>	<u>\$ 2,490,221</u>	<u>\$ 2,589,660</u>

Other long-term debt obligations totaling \$8,131 represent accrued compensated absences.

More detailed information about the City's long-term liabilities is presented in Note 8 of the basic financial statements.

Economic condition and outlook

The City's General Fund budget for the next year projects little increase in spending, and anticipates that total revenues will exceed total expenditures by about 5 percent. A stagnant economy and no substantial revenue increase require that the City hold the line with conservative expenditure trends.

The City's enterprise operations will benefit from the issuance of the revenue bonds that will be used to upgrade the City's aging utility infrastructure. In September 2006, the City refinanced the 4.375% 2004 revenue bonds with bonds bearing a fixed rate of 1.625%. The new bonds mature in 2026, which is 18 years earlier than the old debt, and will require annually, about \$10,000 more in total debt service payments. Rates are currently tied to bonding requirements. After completion of the planned infrastructure improvements, the City intends to further review enterprise operations and facilities to determine the need for future improvements and the cost of replacement.

Contacting the City's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Peter Stanislawski, Treasurer/Finance Director
City of Bangor
257 West Monroe Street
Bangor, MI 49013

Phone: (269) 427-5831
E-mail: stanisla@btc-bci.com

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Bangor, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Bangor, Michigan, as of June 30, 2006, and for the year then ended, which collectively comprise the City of Bangor, Michigan's financial statements, as listed in the contents. These financial statements are the responsibility of the City of Bangor, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Bangor, Michigan, as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, budgetary comparison schedules, and the schedule of funding progress of the employee retirement system, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bangor, Michigan's basic financial statements. The accompanying supplementary information and supplementary data, as listed in the contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The supplementary information and data, and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006, on our consideration of the City of Bangor, Michigan's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sigfried Crandall P.C.

December 15, 2006

BASIC FINANCIAL STATEMENTS

City of Bangor
STATEMENT OF NET ASSETS
June 30, 2006

	Primary government		
	Governmental activities	Business-type activities	Totals
ASSETS			
Current assets:			
Cash	\$ 403,949	\$ 152,095	\$ 556,044
Receivables, net	133,971	72,866	206,837
Interfund balances	(9,881)	9,881	-
Total current assets	<u>528,039</u>	<u>234,842</u>	<u>762,881</u>
Noncurrent assets:			
Capital assets not being depreciated - land	28,342	60,927	89,269
Capital assets, net of accumulated depreciation	1,060,057	6,750,846	7,810,903
Deferred charges	-	65,948	65,948
Total noncurrent assets	<u>1,088,399</u>	<u>6,877,721</u>	<u>7,966,120</u>
Total assets	<u>1,616,438</u>	<u>7,112,563</u>	<u>8,729,001</u>
LIABILITIES			
Current liabilities:			
Payables	51,895	35,031	86,926
Customer deposits	-	6,757	6,757
Current portion of long-term obligations	<u>42,312</u>	<u>58,294</u>	<u>100,606</u>
Total current liabilities	94,207	100,082	194,289
Noncurrent liabilities:			
Long-term obligations	<u>150,198</u>	<u>2,247,548</u>	<u>2,397,746</u>
Total liabilities	<u>244,405</u>	<u>2,347,630</u>	<u>2,592,035</u>
NET ASSETS			
Invested in capital assets, net of related debt	904,020	4,505,931	5,409,951
Restricted:			
Public safety	12,269	-	12,269
Public works	58,801	-	58,801
Recreation and culture	14,156	-	14,156
Debt services	26,961	-	26,961
Unrestricted	<u>355,826</u>	<u>259,002</u>	<u>614,828</u>
Total net assets	<u>\$ 1,372,033</u>	<u>\$ 4,764,933</u>	<u>\$ 6,136,966</u>

<i>Component units</i>		
<i>Downtown Development Authority</i>	<i>Economic Development Corporation</i>	<i>Totals</i>
\$ 7,186	\$ 217	\$ 7,403
-	221	221
-	-	-
<u>7,186</u>	<u>438</u>	<u>7,624</u>
-	-	-
64,088	-	64,088
-	-	-
<u>64,088</u>	<u>-</u>	<u>64,088</u>
<u>71,274</u>	<u>438</u>	<u>71,712</u>
667	-	667
-	-	-
<u>13,486</u>	<u>-</u>	<u>13,486</u>
14,153	-	14,153
<u>21,805</u>	<u>-</u>	<u>21,805</u>
<u>35,958</u>	<u>-</u>	<u>35,958</u>
28,797	-	28,797
-	-	-
-	-	-
-	-	-
<u>6,519</u>	<u>438</u>	<u>6,957</u>
<u>\$ 35,316</u>	<u>\$ 438</u>	<u>\$ 35,754</u>

See notes to the financial statements

City of Bangor
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Primary government				
Governmental activities:				
Legislative	\$ 9,341	\$ -	\$ -	\$ -
General government	227,291	11,298	-	-
Public safety	483,645	30,557	39,303	-
Public works	376,338	67,421	197,083	137,617
Health and welfare	14,435	-	-	-
Recreation and culture	30,150	-	4,762	42,022
Interest on long-term debt	12,490	-	-	-
Total governmental activities	<u>1,153,690</u>	<u>109,276</u>	<u>241,148</u>	<u>179,639</u>
Business-type activities:				
Sewer	288,748	308,318	-	680,901
Water	305,948	255,923	-	-
Total business-type activities	<u>594,696</u>	<u>564,241</u>	<u>-</u>	<u>680,901</u>
Total primary government	<u>\$ 1,748,386</u>	<u>\$ 673,517</u>	<u>\$ 241,148</u>	<u>\$ 860,540</u>
Component units				
Public works	\$ 59,394	\$ 4,503	\$ -	\$ -
Interest on long-term debt	2,392	-	-	-
Total component units	<u>\$ 61,786</u>	<u>\$ 4,503</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes
Franchise fees
State grants
Investment return
Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

Net (expense) revenue and changes in net assets				
Primary government			Component units	
Governmental activities	Business-type activities	Totals	Downtown Development Authority	Economic Development Corporation
\$ (9,341)		\$ (9,341)		
(215,993)		(215,993)		
(413,785)		(413,785)		
25,783		25,783		
(14,435)		(14,435)		
16,634		16,634		
(12,490)		(12,490)		
(623,627)		(623,627)		
-	\$ 700,471	700,471		
-	(50,025)	(50,025)		
-	650,446	650,446		
(623,627)	650,446	26,819		
			\$ (55,310)	\$ 419
			(2,392)	-
			(57,702)	419
552,869	-	552,869	83,050	-
27,937	-	27,937	-	-
274,085	-	274,085	-	-
15,476	6,298	21,774	1,084	19
(35,000)	35,000	-	-	-
835,367	41,298	876,665	84,134	19
211,740	691,744	903,484	26,432	438
1,160,293	4,073,189	5,233,482	8,884	-
\$ 1,372,033	\$ 4,764,933	\$ 6,136,966	\$ 35,316	\$ 438

See notes to the financial statements

City of Bangor
BALANCE SHEET - governmental funds
June 30, 2006

	<u>General</u>	<u>Major Street</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
ASSETS				
Cash	\$ 254,819	\$ 31,679	\$ 58,083	\$ 344,581
Receivables, net	<u>97,400</u>	<u>18,493</u>	<u>8,034</u>	<u>123,927</u>
Total assets	<u>\$ 352,219</u>	<u>\$ 50,172</u>	<u>\$ 66,117</u>	<u>\$ 468,508</u>
LIABILITIES AND FUND BALANCES				
Liabilities - payables	<u>\$ 19,326</u>	<u>\$ 2,475</u>	<u>\$ 1,615</u>	<u>\$ 23,416</u>
Fund balances:				
Unreserved, undesignated	332,893	47,697	-	380,590
Unreserved, undesignated of other funds:				
Special revenue	-	-	37,541	37,541
Debt service	<u>-</u>	<u>-</u>	<u>26,961</u>	<u>26,961</u>
Total fund balances	<u>332,893</u>	<u>47,697</u>	<u>64,502</u>	<u>445,092</u>
Total liabilities and fund balances	<u>\$ 352,219</u>	<u>\$ 50,172</u>	<u>\$ 66,117</u>	<u>\$ 468,508</u>
Total fund balances				\$ 445,092
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 5) are different because:				
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.				988,233
Certain assets and liabilities of the internal service fund are included in <i>governmental activities</i> .				131,218
Accrual of compensated absences				(8,131)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.				<u>(184,379)</u>
Net assets of <i>governmental activities</i>				<u>\$ 1,372,033</u>

See notes to the financial statements

City of Bangor

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - governmental funds

Year ended June 30, 2006

	<u>General</u>	<u>Major Street</u>	<u>Other governmental funds</u>	<u>Totals governmental funds</u>
REVENUES				
Taxes	\$ 376,810	\$ -	\$ 176,059	\$ 552,869
Federal grants	-	137,617	14,286	151,903
State grants	355,410	118,734	42,736	516,880
Local units of government	-	13,175	11,431	24,606
Fines and forfeitures	9,520	-	-	9,520
Licenses and permits	21,036	-	-	21,036
Charges for services	78,665	-	-	78,665
Interest and rentals	13,758	425	2,776	16,959
Other	27,992	-	-	27,992
Total revenues	<u>883,191</u>	<u>269,951</u>	<u>247,288</u>	<u>1,400,430</u>
EXPENDITURES				
Legislative	9,341	-	-	9,341
General government	218,867	-	-	218,867
Public safety	372,147	-	111,716	483,863
Public works	128,457	297,606	152,093	578,156
Health and welfare	-	-	14,435	14,435
Recreation and culture	71,857	-	-	71,857
Debt services:				
Principal	-	556	41,667	42,223
Interest	-	618	11,872	12,490
Capital outlay	<u>49,390</u>	<u>-</u>	<u>-</u>	<u>49,390</u>
Total expenditures	<u>850,059</u>	<u>298,780</u>	<u>331,783</u>	<u>1,480,622</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>33,132</u>	<u>(28,829)</u>	<u>(84,495)</u>	<u>(80,192)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in from other funds	-	58,000	31,000	89,000
Transfers out to other funds	(124,000)	-	-	(124,000)
Transfers out to component units	<u>(1,000)</u>	<u>-</u>	<u>-</u>	<u>(1,000)</u>
Total other financing sources (uses)	<u>(125,000)</u>	<u>58,000</u>	<u>31,000</u>	<u>(36,000)</u>
NET CHANGE IN FUND BALANCES	(91,868)	29,171	(53,495)	(116,192)
FUND BALANCES - BEGINNING	<u>424,761</u>	<u>18,526</u>	<u>117,997</u>	<u>561,284</u>
FUND BALANCES - ENDING	<u>\$ 332,893</u>	<u>\$ 47,697</u>	<u>\$ 64,502</u>	<u>\$ 445,092</u>

See notes to the financial statements

City of Bangor

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended June 30, 2006

Reconciliation of the statement of revenues, expenditures, and changes
in fund balances to the statement of activities:

Net change in fund balances - total governmental funds (page 8) \$ (116,192)

Amounts reported for *governmental activities* in the statement of
activities are different because:

Capital assets:

Capital outlays	327,628
Provision for depreciation	(44,473)

Long-term obligations - repayment of long-term debt	42,223
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Decrease in compensated absences liability	2,868
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Certain net loss of the internal service fund is reported with <i>governmental activities</i> .	<u>(314)</u>
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Change in net assets of <i>governmental activities</i> (page 6)	<u>\$ 211,740</u>
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See notes to the financial statements

City of Bangor
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2006

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
ASSETS				
Current assets:				
Cash	\$ 66,798	\$ 85,297	\$ 152,095	\$ 59,368
Receivables	40,921	31,945	72,866	10,044
Total current assets	107,719	117,242	224,961	69,412
Noncurrent assets:				
Capital assets not being depreciated - land	25,825	35,102	60,927	-
Capital assets, net of accumulated depreciation	5,996,454	754,392	6,750,846	100,166
Deferred charges	65,948	-	65,948	-
Total noncurrent assets	6,088,227	789,494	6,877,721	100,166
Total assets	6,195,946	906,736	7,102,682	169,578
LIABILITIES				
Current liabilities:				
Payables	33,485	1,546	35,031	28,479
Customer deposits	-	6,757	6,757	-
Current portion of long-term obligations	23,000	35,294	58,294	-
Total current liabilities	56,485	43,597	100,082	28,479
Noncurrent liabilities:				
Long-term obligations	2,221,000	26,548	2,247,548	-
Total liabilities	2,277,485	70,145	2,347,630	28,479
NET ASSETS				
Invested in capital assets, net of related debt	3,778,279	727,652	4,505,931	100,166
Unrestricted	140,182	108,939	249,121	40,933
Total net assets	\$ 3,918,461	\$ 836,591	\$ 4,755,052	\$ 141,099

See notes to the financial statements

City of Bangor

STATEMENT OF NET ASSETS - *proprietary funds* (Continued)

June 30, 2006

Total net assets - enterprise funds	\$ 4,755,052
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Some amounts reported for *business-type activities* in the statement of net assets (page 5) are different because certain assets and liabilities of the internal service fund have been included with *business-type activities*.

<u>9,881</u>

Net assets of <i>business-type activities</i>	<u>\$ 4,764,933</u>
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See notes to the financial statements

City of Bangor

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET

ASSETS - proprietary funds

Year ended June 30, 2006

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
OPERATING REVENUES				
Charges for services	\$ 307,066	\$ 253,910	\$ 560,976	\$ 135,321
Other	1,252	2,013	3,265	3,980
Total operating revenues	308,318	255,923	564,241	139,301
OPERATING EXPENSES				
Personnel costs	137,902	151,161	289,063	39,065
Contracted services	74,201	70,216	144,417	41,645
Supplies	10,583	24,323	34,906	30,066
Internal charges	15,955	23,048	39,003	-
Depreciation	29,722	34,476	64,198	28,839
Total operating expenses	268,363	303,224	571,587	139,615
Operating income (loss)	39,955	(47,301)	(7,346)	(314)
NONOPERATING REVENUES (EXPENSES)				
Federal grant	680,901	-	680,901	-
Interest	2,238	4,060	6,298	-
Interest expense, less capitalized interest of \$80,444	(20,385)	(2,724)	(23,109)	-
Transfers	35,000	-	35,000	-
Net nonoperating revenues	697,754	1,336	699,090	-
CHANGE IN NET ASSETS	737,709	(45,965)	691,744	(314)
NET ASSETS - BEGINNING	3,180,752	882,556	4,063,308	141,413
NET ASSETS - ENDING	\$ 3,918,461	\$ 836,591	\$ 4,755,052	\$ 141,099

See notes to the financial statements

City of Bangor
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2006

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 309,565	\$ 258,141	\$ 567,706	\$ 137,844
Payments to employees	(64,836)	(77,180)	(142,016)	(33,851)
Payments to vendors and suppliers	(174,125)	(172,133)	(346,258)	(81,940)
Internal activity - payments to other funds	(15,955)	(23,048)	(39,003)	-
Net cash provided by (used in) operating activities	<u>54,649</u>	<u>(14,220)</u>	<u>40,429</u>	<u>22,053</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Federal grant receipts	1,057,200	-	1,057,200	-
Transfer in	35,000	-	35,000	-
Decrease in payables	(376,299)	-	(376,299)	-
Acquisition of capital assets	(693,741)	(23,442)	(717,183)	(38,029)
Principal payments on long-term debt	(22,000)	(35,217)	(57,217)	-
Interest payments on long-term debt	(99,138)	(3,000)	(102,138)	-
Net cash used in capital and related financing activities	<u>(98,978)</u>	<u>(61,659)</u>	<u>(160,637)</u>	<u>(38,029)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	<u>2,238</u>	<u>4,060</u>	<u>6,298</u>	<u>-</u>
NET DECREASE IN CASH	<u>(42,091)</u>	<u>(71,819)</u>	<u>(113,910)</u>	<u>(15,976)</u>
CASH - BEGINNING	<u>108,889</u>	<u>157,116</u>	<u>266,005</u>	<u>75,344</u>
CASH - ENDING	<u>\$ 66,798</u>	<u>\$ 85,297</u>	<u>\$ 152,095</u>	<u>\$ 59,368</u>

See notes to the financial statements

STATEMENT OF CASH FLOWS - proprietary funds (Continued)

Year ended June 30, 2006

	<i>Business-type activities</i>			<i>Governmental activities</i>
	<i>Enterprise funds</i>			<i>Internal service</i>
	<i>Sewer</i>	<i>Water</i>	<i>Totals</i>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 39,955	\$ (47,301)	\$ (7,346)	\$ (314)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	29,722	34,476	64,198	28,839
(Increase) decrease in receivables, net	1,247	2,520	3,767	(1,457)
Decrease in:				
Payables	(16,275)	(3,615)	(19,890)	(5,015)
Customer deposits	-	(300)	(300)	-
Net cash provided by (used in) operating activities	<u>\$ 54,649</u>	<u>\$ (14,220)</u>	<u>\$ 40,429</u>	<u>\$ 22,053</u>

See notes to the financial statements

City of Bangor
STATEMENT OF FIDUCIARY NET ASSETS - Agency Fund
June 30, 2006

ASSETS

Cash	\$ 944
Receivables, net	<u>68,389</u>
Total assets	<u>\$ 69,333</u>

LIABILITIES

Due to other governmental units	<u>\$ 69,333</u>
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See notes to the financial statements

City of Bangor
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Bangor, Michigan (the City), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely-presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Discretely-presented component units:

Downtown Development Authority and Economic Development Corporation:

Each component units' governing body is appointed by the City Council and their budgets must be approved by the City Council. Separate financial statements for the component units have not been issued, as management believes that these financial statements, including disclosures, contain complete information so as to constitute a fair presentation of each component unit.

Hospital Finance Authority:

The Hospital Finance Authority (the Authority) was created to provide a method to enable nonprofit, nonpublic hospitals to provide facilities and services for health care, and to accomplish these purposes, the Authority is authorized to issue bonds. A three-person Commission, appointed by the City Council, governs the Authority that may not issue debt without the approval of the City Council. The Authority has no assets, liabilities, equity, revenues, or expenses; therefore, no separate columns have been included in the financial statements associated with the Authority.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Bangor
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund accounts for the use of allocated state gas and weight taxes used for the maintenance and construction of major streets within the City.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the City's sewage collection systems and treatment plant.

The Water Fund accounts for the activities of the City's water distribution system.

Additionally, the City reports the following fund types:

The Motor Vehicle Pool Fund, an internal service fund, accounts for vehicle and equipment management services provided to other departments of the City on a cost-reimbursement basis.

The Agency Fund, a fiduciary fund, which accounts for financial assets held for other units of government.

City of Bangor
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash consists of cash on hand, demand deposits, and highly liquid short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the City considers all receivables to be fully collectible.

iii) Deferred charges - Certain payments in connection with obtaining long-term financing have been deferred and are being amortized over the life of the related debt using the straight line method.

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sewer and water systems, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at

City of Bangor
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

iv) Capital assets (continued)

the date of donation. Governments can elect to account for infrastructure assets of government activities either retroactively to June 15, 1980, or prospectively. The City has elected to account for its infrastructure assets prospectively, beginning July 1, 2003.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 - 40 years
Equipment	3 - 20 years
Vehicles	4 - 20 years
Infrastructure	50 years

v) Compensated absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

vi) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vii) Property tax revenue recognition - Property taxes are levied as of July 1 on property values assessed as of July 31 of the prior year. The billings are due on or before September 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the City. Property tax revenue is recognized in the year for which taxes have been levied and become available. The City levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the City's general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

During the year ended June 30, 2006, the City incurred expenditures, which were in excess of the amounts appropriated. The following table sets forth the significant expenditures in excess of budget.

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
General	Public works	Recycling	\$ 65,000	\$ 70,372	\$ 5,372
General	Public works	Airport	110	6,011	5,901

City of Bangor
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS:

Cash as presented in the accompanying financial statements, consisted of the following:

	<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Fiduciary</i>	<i>Total primary government</i>	<i>Total component units</i>	<i>Total</i>
Deposits	\$ 272,803	\$ 58,797	\$ 944	\$ 332,544	\$ 7,403	\$ 339,947
Investments	131,006	93,298	-	224,304	-	224,304
Cash on hand	<u>140</u>	<u>-</u>	<u>-</u>	<u>140</u>	<u>-</u>	<u>140</u>
Total cash	<u>\$ 403,949</u>	<u>\$ 152,095</u>	<u>\$ 944</u>	<u>\$ 556,988</u>	<u>\$ 7,403</u>	<u>\$ 564,391</u>

Deposits:

Custodial credit risk of deposits is the risk that in the event of the failure of a depository financial institution, the City will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of June 30, 2006, \$220,534 of the City's corresponding bank balances of \$345,763 was exposed to custodial credit risk because it was uninsured. The City maintains individual and pooled cash accounts for all of its funds and its component units. Due to use of pooled deposits, it is not practicable to allocate insured and uninsured portions of certain bank balances between the primary government and its component units. The insured portion of the bank balance has been allocated entirely to the primary government.

The City believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the City evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Investments:

State statutes and the City's investment policy authorize the City to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, with three (3) highest rate classifications by at least two (2) rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) investment pools composed of otherwise legal investments. At June 30, 2006, the primary government's investments consisted of \$224,304 in the Cooperative Liquid Asset Security System a non-risk categorized holding, which is reported at cost, which approximates fair value.

City of Bangor
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

At June 30, 2006, the City's receivables were as follows:

	<u>Property taxes</u>	<u>Accounts</u>	<u>Inter- governmental</u>	<u>Loans</u>	<u>Totals</u>
Governmental activities:					
General	\$ 1,219	\$ 8,954	\$ 87,227	\$ -	\$ 97,400
Major Street	-	-	18,493	-	18,493
Other governmental funds	-	-	7,084	950	8,034
Internal Service	-	10,044	-	-	10,044
Total governmental funds	<u>\$ 1,219</u>	<u>\$ 18,998</u>	<u>\$ 112,804</u>	<u>\$ 950</u>	<u>\$ 133,971</u>
Business-type activities:					
Sewer	\$ -	\$ 40,921	\$ -	\$ -	\$ 40,921
Water	-	31,945	-	-	31,945
Total business-type activities	<u>\$ -</u>	<u>\$ 72,866</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,866</u>
Fiduciary fund - Agency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,389</u>	<u>\$ 68,389</u>

All receivables are considered fully collectible, and, except for loans, all are due within one year.

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ 28,342	\$ -	\$ -	\$ 28,342
Capital assets being depreciated:				
Land improvements	80,731	90,359	-	171,090
Buildings	591,276	2,245	-	593,521
Furniture, fixtures, and equipment	493,294	25,405	(7,449)	511,250
Vehicles	80,882	22,160	-	103,042
Roads	238,529	231,188	-	469,717
Subtotal	<u>1,484,712</u>	<u>371,357</u>	<u>(7,449)</u>	<u>1,848,620</u>

City of Bangor
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities (continued):				
Less accumulated depreciation for:				
Land improvements	\$ (22,951)	\$ (6,637)	\$ -	\$ (29,588)
Buildings	(189,677)	(13,957)	-	(203,634)
Furniture, fixtures, and equipment	(433,168)	(25,701)	7,449	(451,420)
Vehicles	(52,560)	(9,235)	-	(61,795)
Roads	(18,644)	(23,482)	-	(42,126)
Subtotal	(717,000)	(79,012)	7,449	(788,563)
Total capital assets being depreciated, net	767,712	292,345	-	1,060,057
Governmental activities capital assets, net	\$ 796,054	\$ 292,345	\$ -	\$ 1,088,399
Business-type activities:				
Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 25,825	\$ -	\$ -	\$ 25,825
Construction in progress	4,755,058	774,927	(5,529,985)	-
Subtotal	4,780,883	774,927	(5,529,985)	25,825
Capital assets being depreciated:				
Sewer system	958,683	5,529,985	-	6,488,668
Equipment	43,226	1,091	-	44,317
Subtotal	1,001,909	5,531,076	-	6,532,985
Less accumulated depreciation for:				
Sewer system	(495,676)	(26,090)	-	(521,766)
Equipment	(11,133)	(3,632)	-	(14,765)
Subtotal	(506,809)	(29,722)	-	(536,531)
Total capital assets being depreciated, net	495,100	5,501,354	-	5,996,454
Sewer fund capital assets, net	5,275,983	6,276,281	(5,529,985)	6,022,279

City of Bangor
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities (continued):				
Water Fund:				
Capital assets not being depreciated - land	\$ 35,102	\$ -	\$ -	\$ 35,102
Capital assets being depreciated:				
Water system	1,156,123	22,354	-	1,178,477
Equipment	39,086	1,091	-	40,177
Subtotal	<u>1,195,209</u>	<u>23,445</u>	<u>-</u>	<u>1,218,654</u>
Less accumulated depreciation for:				
Water system	(391,873)	(34,064)	-	(425,937)
Equipment	(37,910)	(415)	-	(38,325)
Subtotal	<u>(429,783)</u>	<u>(34,479)</u>	<u>-</u>	<u>(464,262)</u>
Total capital assets being depreciated, net	<u>765,426</u>	<u>(11,034)</u>	<u>-</u>	<u>754,392</u>
Water Fund capital assets, net	<u>800,528</u>	<u>(11,034)</u>	<u>-</u>	<u>789,494</u>
Business-type activities capital assets, net	<u>\$ 6,076,511</u>	<u>\$ 6,265,247</u>	<u>\$ (5,529,985)</u>	<u>\$ 6,811,773</u>

During the year ended June 30, 2006, the City capitalized \$80,444 of interest as part of construction in progress of the Sewer Fund.

Depreciation expense was charged to governmental activities as follows:

General government	\$ 14,505
Public safety	2,650
Public works	55,227
Recreation and culture	<u>6,630</u>
Total	<u>\$ 79,012</u>

NOTE 6 - INTERFUND TRANSFERS AND TRANSFERS TO COMPONENT UNIT:

During the year ended June 30, 2006, the General Fund transferred \$58,000 to the Major Street Fund, \$35,000 to the Sewer Fund and \$31,000 to a non-major governmental fund in support of operating activities. The General Fund also transferred \$1,000 to the Economic Development Corporation in support of operations.

City of Bangor
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - PAYABLES:

At June 30, 2006, the City's payables, by fund, were as follows:

	<u>Accounts</u>	<u>Payroll</u>	<u>Interest</u>	<u>Totals</u>
Governmental activities:				
General	\$ 19,326	\$ -	\$ -	\$ 19,326
Major Street	2,475	-	-	2,475
Other governmental	1,615	-	-	1,615
Internal service	<u>6,016</u>	<u>22,463</u>	<u>-</u>	<u>28,479</u>
Total governmental activities	<u>\$ 29,432</u>	<u>\$ 22,463</u>	<u>\$ -</u>	<u>\$ 51,895</u>
Business-type activities:				
Sewer	\$ 9,205	\$ -	\$ 24,280	\$ 33,485
Water	<u>1,096</u>	<u>-</u>	<u>450</u>	<u>1,546</u>
Total business-type activities	<u>\$ 10,301</u>	<u>\$ -</u>	<u>\$ 24,730</u>	<u>\$ 35,031</u>

NOTE 8 - LONG-TERM LIABILITIES:

At June 30, 2006, long-term liabilities are comprised of the following individual issues:

Primary government:

Governmental activities:

Bonds and notes:

\$456,000 5.71% 1994 Unlimited Tax General Obligation Bonds; due in annual installments of \$20,000 to \$45,000 plus interest through May 2009. \$ 125,000

\$64,400 2003 4.00% Note payable, Michigan State Infrastructure Bank; due in quarterly installments of \$1,174 including interest, beginning October 2003 through April 2023, plus a balloon payment of \$5,405 in July 2023. 59,379

 Total bonds and notes 184,379

Accrued compensated absences 8,131

 Total governmental activities long-term obligations \$ 192,510

City of Bangor
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM LIABILITIES (Continued):

Primary government (continued):

Business-type activities:

Bonds and notes:

\$150,000 3.50% 2003 Note payable, bank; due in quarterly installments of \$8,824 plus interest, beginning January 2004 through January 2008. \$ 61,842

\$2,287,000 4.375% 2004 Sewage Disposal System Revenue Bonds (Limited Tax General Obligation); due in annual installments of \$21,000 to \$127,000 plus interest beginning April 2005 through April 2044. See Note 14, Subsequent event. 2,244,000

Total business-type activities long-term obligations \$ 2,305,842

Component units:

Downtown Development Authority:

\$154,000 5.50% 1994 Note payable, bank; payable in quarterly installments of \$3,786 including interest through November 2008. \$ 35,291

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Primary government:					
Governmental activities:					
1994 Bonds	\$ 165,000	\$ -	\$ (40,000)	\$ 125,000	\$ 40,000
2003 Note	<u>61,601</u>	<u>-</u>	<u>(2,222)</u>	<u>59,379</u>	<u>2,312</u>
Total bonds and notes	226,601	-	(42,222)	184,379	42,312
Compensated absences	<u>11,000</u>	<u>6,200</u>	<u>(9,069)</u>	<u>8,131</u>	<u>-</u>
	<u>\$ 237,601</u>	<u>\$ 6,200</u>	<u>\$ (51,291)</u>	<u>\$ 192,510</u>	<u>\$ 42,312</u>
Business-type activities:					
2003 Note	\$ 97,059	\$ -	\$ (35,217)	\$ 61,842	\$ 35,294
2004 Bonds	<u>2,266,000</u>	<u>-</u>	<u>(22,000)</u>	<u>2,244,000</u>	<u>23,000</u>
Total bonds and notes	<u>\$ 2,363,059</u>	<u>\$ -</u>	<u>\$ (57,217)</u>	<u>\$ 2,305,842</u>	<u>\$ 58,294</u>
Discretely presented component units:					
Downtown Development Authority:					
1994 Note	<u>\$ 48,044</u>	<u>\$ -</u>	<u>\$ (12,753)</u>	<u>\$ 35,291</u>	<u>\$ 13,486</u>

City of Bangor
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM LIABILITIES (Continued):

At June 30, 2006, debt service requirements, excluding compensated absences, were as follows:

<u>Year ended June 30:</u>	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Component unit:</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 42,312	\$ 9,780	\$ 58,294	\$ 99,874	\$ 13,486	\$ 1,658
2008	42,400	7,332	50,548	97,632	14,243	901
2009	47,505	4,869	25,000	96,119	7,562	283
2010	2,606	2,089	27,000	95,025		
2011	2,711	1,983	28,000	93,844		
2012 - 2016	15,292	8,183	159,000	449,839	-	-
2017 - 2021	18,666	4,808	198,000	411,732	-	-
2022 - 2026	12,887	870	246,000	364,437	-	-
2027 - 2031	-	-	307,000	305,508	-	-
2032 - 2036	-	-	382,000	232,050	-	-
2037 - 2041	-	-	476,000	140,657	-	-
2042 - 2046	-	-	349,000	31,325	-	-
Totals	<u>\$ 184,379</u>	<u>\$ 39,914</u>	<u>\$ 2,305,842</u>	<u>\$ 2,418,042</u>	<u>\$ 35,291</u>	<u>\$ 2,842</u>

All debt is secured by the full faith and credit of the City.

NOTE 9 - DEFINED BENEFIT PENSION PLAN:

Plan description:

The City's defined benefit pension plan provides retirement benefits to qualified employees and their beneficiaries. The City's defined benefit pension plan is affiliated with the Municipal Employees' Retirement System of Michigan (MERS), an agent, multiple-employer, public employee retirement system that acts as a common investment and administrative agent for municipalities in Michigan. Public Act 220 of 1996 of the State of Michigan assigns the authority to establish and amend the benefit provisions to the City. The MERS issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 N. Canal, Lansing, Michigan 48917, or by calling 1-800-767-6377.

Funding policy:

MERS members are required to contribute an amount varying between 0 and 10 percent, based on the benefit structure established by each employer. The City is required to contribute at an actuarially determined rate, which currently is 0 percent. Covered employees are not required to contribute to the plan. Administrative costs of the plan are financed through investment earnings

City of Bangor
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - DEFINED BENEFIT PENSION PLAN (continued):

Annual pension cost:

For the year ended June 30, 2006, the City's annual pension cost of \$0 for its defined benefit pension plan was equal to the required and actual contributions. The required contribution was determined as part of the December 31, 2005, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: a) 8 percent investment rate of return, net of administrative expenses, b) projected salary increases of 4.50 percent per year, and c) no cost of living adjustments. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan has an unfunded actuarial accrued benefit, which is being amortized over 10 years as a level percentage of payroll.

Three-year trend information:

For the years ended June 30, 2006, 2005, and 2004, the City was not required to make a contribution into the plan.

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS:

The City provides post-employment health benefits, as per the requirements of a City labor agreement. All non-disability retirees of the plan are eligible for this benefit. Currently, seven retirees meet these eligibility requirements. The City purchases commercial health insurance to provide this benefit, which is provided for the life of the retiree and spouse for current retirees. The insurance policy provides coverage of medical expenses and costs for all pre-Medicare age retirees similar to the benefit available to active employees. A reduced coverage policy, or Medicare supplement, is provided for each retiree eligible for Medicare. Expenditures approximated \$73,500 in 2006.

NOTE 11 - CLAIMS ARISING FROM RISKS OF LOSS:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public-entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public-entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past five fiscal years.

City of Bangor
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2006, is as follows:

Revenues	\$ 21,036
Expenses	<u>(43,525)</u>
Deficiency of revenues over expenses	<u>\$ (22,489)</u>

NOTE 13 - JOINT VENTURES:

ABB Fire District:

The City has joined with the Townships of Arlington and Bangor in establishing the ABB Joint Fire District (the District) to provide fire protection in the District's area of operation, which includes the City of Bangor. The operations of the District are financed by annual support from the participating units of government. The District's Board is composed of two members appointed from each of the participating municipalities. During the year ended June 30, 2006, the City contributed \$69,065 toward the District's operations. There is no equity interest by any participating unit in the District. Complete financial statements can be obtained from the District at 417 West Arlington Street, Bangor, Michigan.

South Haven Regional Airport Authority:

The City has joined with the City of South Haven and the Townships of South Haven, Geneva, Casco, and Covert in establishing the South Haven Regional Airport Authority (the Authority) to provide airfield services in the Authority's area of operation, which includes the City of Bangor. The Authority's board is composed of two members appointed from both the City of Bangor and the City of South Haven and one member appointed from each of the remaining municipalities. The operations of the Authority are financed by annual support from the participating units of government, as well as hangar rentals and fuel sales. During the year ended June 30, 2006, the City contributed \$6,011 toward the Authority's operations. There is no equity interest by any participating unit in the Authority. Complete financial statements can be obtained from the Authority at 73020 CR 380, South Haven, Michigan.

NOTE 14 - SUBSEQUENT EVENT:

In September 2006, the City issued \$2,200,000 2006 Sewage Disposal System Revenue and Revenue Refunding Bond, a limited tax general obligation bond, to refinance 2004 Sewage Disposal System Revenue Bonds. In addition to the debt proceeds, the City paid in sufficient cash to pay off the old bonds at their face value plus accrued interest through October 1, 2006. Accordingly the City will not recognize a gain or loss upon refinancing. The bonds will mature in April 2026, and are to be paid in annual installments ranging from \$65,000 to \$130,000 plus interest of 1.625% per annum. The bonds are secured by the full faith and credit of the City.

REQUIRED SUPPLEMENTARY INFORMATION

City of Bangor**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended June 30, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 341,875	\$ 376,200	\$ 376,810	\$ 610
State grants	304,200	351,307	355,410	4,103
Fines and forfeitures	9,100	9,514	9,520	6
Licenses and permits	14,000	20,775	21,036	261
Charges for services	66,000	75,911	78,665	2,754
Interest and rentals	5,000	12,885	13,758	873
Other	13,005	26,310	27,992	1,682
Total revenues	<u>753,180</u>	<u>872,902</u>	<u>883,191</u>	<u>10,289</u>
EXPENDITURES				
Legislative	<u>9,600</u>	<u>9,342</u>	<u>9,341</u>	<u>1</u>
General government:				
City manager	48,075	55,645	54,896	749
Clerk	28,745	24,845	22,493	2,352
Treasurer	73,100	79,310	76,227	3,083
City Hall	21,150	23,035	23,184	(149)
Cemetery	27,300	23,980	24,104	(124)
Other	14,300	17,160	17,963	(803)
Total general government	<u>212,670</u>	<u>223,975</u>	<u>218,867</u>	<u>5,108</u>
Public safety:				
Police	306,900	336,632	328,622	8,010
Building inspection	<u>36,600</u>	<u>42,725</u>	<u>43,525</u>	<u>(800)</u>
Total public safety	<u>343,500</u>	<u>379,357</u>	<u>372,147</u>	<u>7,210</u>
Public works:				
Recycling	55,000	65,000	70,372	(5,372)
Public service	33,990	29,955	28,359	1,596
Street lighting	26,000	26,500	23,715	2,785
Airport	<u>5,000</u>	<u>110</u>	<u>6,011</u>	<u>(5,901)</u>
Total public works	<u>119,990</u>	<u>121,565</u>	<u>128,457</u>	<u>(6,892)</u>

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended June 30, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Recreation and culture:				
Parks	\$ 26,160	\$ 68,385	\$ 71,330	\$ (2,945)
Library	<u>1,050</u>	<u>615</u>	<u>527</u>	<u>88</u>
Total recreation and culture	<u>27,210</u>	<u>69,000</u>	<u>71,857</u>	<u>(2,857)</u>
Capital outlay	<u>6,000</u>	<u>52,772</u>	<u>49,390</u>	<u>3,382</u>
Total expenditures	<u>718,970</u>	<u>856,011</u>	<u>850,059</u>	<u>5,952</u>
EXCESS OF REVENUES OVER EXPENDITURES	34,210	16,891	33,132	16,241
OTHER FINANCING USES				
Transfers out	<u>(80,000)</u>	<u>(145,500)</u>	<u>(125,000)</u>	<u>20,500</u>
NET CHANGE IN FUND BALANCES	(45,790)	(128,609)	(91,868)	36,741
FUND BALANCES - BEGINNING	<u>424,761</u>	<u>424,761</u>	<u>424,761</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 378,971</u>	<u>\$ 296,152</u>	<u>\$ 332,893</u>	<u>\$ 36,741</u>

City of Bangor

BUDGETARY COMPARISON SCHEDULE - Major Street Fund

Year ended June 30, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Federal grants	\$ -	\$ 137,617	\$ 137,617	\$ -
State grants	110,000	110,000	118,734	8,734
Local unit contributions	-	-	13,175	13,175
Interest	200	380	425	45
Total revenues	<u>110,200</u>	<u>247,997</u>	<u>269,951</u>	<u>21,954</u>
EXPENDITURES				
Public works:				
Street preservation	70,000	183,877	183,791	86
Bridge maintenance	5,940	10	629	(619)
Traffic services	1,850	1,385	1,418	(33)
Winter maintenance	15,900	16,215	16,198	17
Surface maintenance	71,900	78,990	79,404	(414)
Trunkline maintenance	3,565	880	609	271
Administration	16,975	15,680	15,557	123
Total public works	186,130	297,037	297,606	(569)
Debt service:				
Principal	-	-	556	(556)
Interest	640	620	618	2
Total expenditures	<u>186,770</u>	<u>297,657</u>	<u>298,780</u>	<u>(1,123)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(76,570)	(49,660)	(28,829)	20,831
OTHER FINANCING SOURCES				
Transfers in:	<u>70,000</u>	<u>58,000</u>	<u>58,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(6,570)	8,340	29,171	20,831
FUND BALANCES - BEGINNING	<u>18,526</u>	<u>18,526</u>	<u>18,526</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 11,956</u>	<u>\$ 26,866</u>	<u>\$ 47,697</u>	<u>\$ 20,831</u>

City of Bangor

ANALYSIS OF FUNDING PROGRESS - Employee Retirement System

(Municipal Employees' Retirement System of Michigan)

The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the dates indicated.

<i>Actuarial valuation date <u>December 31:</u></i>	<i>Actuarial value of assets (a)</i>	<i>Actuarial accrued liability (ALL) entry age (b)</i>	<i>Funded ratio (a)/(b)</i>	<i>(Over- funded) ALL (b-a)</i>	<i>Covered payroll (c)</i>	<i>(Over- funded) ALL as a percentage of covered payroll ((b-a)/c)</i>
1996	\$ 1,281,143	\$ 888,007	144%	\$ (393,136)	\$ 300,756	-131%
1997	1,372,243	902,401	152%	(469,842)	351,672	-134%
1998	1,477,738	974,561	152%	(503,177)	427,886	-118%
1999	1,643,395	1,028,311	160%	(615,084)	387,547	-159%
2000	1,741,519	1,064,244	164%	(677,275)	422,031	-160%
2001	1,790,847	1,081,042	166%	(709,805)	471,591	-151%
2002	1,774,124	1,081,193	164%	(692,931)	456,995	-152%
2003	1,828,396	1,188,955	154%	(639,441)	455,301	-140%
2004	1,877,240	1,236,525	152%	(640,715)	502,834	-127%
2005	1,925,656	1,256,112	153%	(669,544)	488,221	-137%

SUPPLEMENTARY INFORMATION

City of Bangor
COMBINING BALANCE SHEET - other governmental funds
June 30, 2006

	<u>Special revenue funds</u>			
	<u>Local Street</u>	<u>Police</u>	<u>South Haven Hospital Authority</u>	<u>Senior Services</u>
ASSETS				
Cash	\$ 1,448	\$ -	\$ -	\$ 12
Receivables, net	7,084	-	-	-
Total assets	<u>\$ 8,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12</u>
LIABILITIES AND FUND BALANCES				
Liabilities - accounts payable	\$ 625	\$ -	\$ -	\$ -
Fund balances - unreserved, undesignated	7,907	-	-	12
Total liabilities and fund balances	<u>\$ 8,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12</u>

Bangor Fire District	CDBG	Library Maintenance	Totals	Debt service	Total other governmental funds
				1994 Capital Improvement Bond	
\$ 12,269	\$ 3,237	\$ 14,156	\$ 31,122	\$ 26,961	\$ 58,083
-	950	-	8,034	-	8,034
<u>\$ 12,269</u>	<u>\$ 4,187</u>	<u>\$ 14,156</u>	<u>\$ 39,156</u>	<u>\$ 26,961</u>	<u>\$ 66,117</u>
\$ -	\$ 990	\$ -	\$ 1,615	\$ -	\$ 1,615
<u>12,269</u>	<u>3,197</u>	<u>14,156</u>	<u>37,541</u>	<u>26,961</u>	<u>64,502</u>
<u>\$ 12,269</u>	<u>\$ 4,187</u>	<u>\$ 14,156</u>	<u>\$ 39,156</u>	<u>\$ 26,961</u>	<u>\$ 66,117</u>

City of Bangor**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - other governmental funds**

Year ended June 30, 2006

	<u>Special revenue funds</u>			
	<u>Local Street</u>	<u>Police</u>	<u>South Haven Hospital Authority</u>	<u>Senior Services</u>
REVENUES				
Property taxes	\$ -	\$ 42,651	\$ 8,635	\$ 5,800
Federal grants	-	-	-	-
State grants	42,736	-	-	-
Local units of government	6,931	-	-	-
Interest	593	-	-	8
	<u>50,260</u>	<u>42,651</u>	<u>8,635</u>	<u>5,808</u>
Total revenues	<u>50,260</u>	<u>42,651</u>	<u>8,635</u>	<u>5,808</u>
EXPENDITURES				
Public safety	-	42,651	-	-
Public works	137,412	-	-	-
Health and welfare	-	-	8,635	5,800
Debt services:				
Principal	1,667	-	-	-
Interest	1,854	-	-	-
	<u>140,933</u>	<u>42,651</u>	<u>8,635</u>	<u>5,800</u>
Total expenditures	<u>140,933</u>	<u>42,651</u>	<u>8,635</u>	<u>5,800</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(90,673)	-	-	8
OTHER FINANCING SOURCES				
Operating transfer in	<u>31,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(59,673)	-	-	8
FUND BALANCES - BEGINNING	<u>67,580</u>	<u>-</u>	<u>-</u>	<u>4</u>
FUND BALANCES - ENDING	<u>\$ 7,907</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12</u>

<i>Bangor Fire District</i>	<i>CDBG</i>	<i>Library Maintenance</i>	<i>Totals</i>	<i>Debt service 1994 Capital Improvement Bond</i>	<i>Total other governmental funds</i>
\$ 70,378	\$ -	\$ -	\$ 127,464	\$ 48,595	\$ 176,059
-	14,286	-	14,286	-	14,286
-	-	-	42,736	-	42,736
-	-	4,500	11,431	-	11,431
324	203	262	1,390	1,386	2,776
<u>70,702</u>	<u>14,489</u>	<u>4,762</u>	<u>197,307</u>	<u>49,981</u>	<u>247,288</u>
69,065	-	-	111,716	-	111,716
-	14,681	-	152,093	-	152,093
-	-	-	14,435	-	14,435
-	-	-	1,667	40,000	41,667
-	-	-	1,854	10,018	11,872
<u>69,065</u>	<u>14,681</u>	<u>-</u>	<u>281,765</u>	<u>50,018</u>	<u>331,783</u>
1,637	(192)	4,762	(84,458)	(37)	(84,495)
-	-	-	31,000	-	31,000
1,637	(192)	4,762	(53,458)	(37)	(53,495)
<u>10,632</u>	<u>3,389</u>	<u>9,394</u>	<u>90,999</u>	<u>26,998</u>	<u>117,997</u>
<u>\$ 12,269</u>	<u>\$ 3,197</u>	<u>\$ 14,156</u>	<u>\$ 37,541</u>	<u>\$ 26,961</u>	<u>\$ 64,502</u>

SUPPLEMENTARY DATA

City of Bangor
SCHEDULE OF DEBT RETIREMENT AND ANNUAL INTEREST
REQUIREMENTS
June 30, 2006

PRIMARY GOVERNMENT

Governmental activities:

\$456,000 5.71% 1994 Limited Tax General Obligation Bonds

<u>Year ending June 30:</u>	<u>Interest requirements</u>	<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
2007	\$ 7,398	5/1/2007	\$ 40,000	\$ 47,398
2008	5,038	5/1/2008	40,000	45,038
2009	<u>2,678</u>	5/1/2009	<u>45,000</u>	<u>47,678</u>
	<u>\$ 15,114</u>		<u>\$ 125,000</u>	<u>\$ 140,114</u>

\$64,400 4.00% 2003 Note payable, Michigan State Infrastructure Bank

<u>Year ending June 30:</u>	<u>Interest requirements</u>	<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
2007	\$ 2,382	Quarterly	\$ 2,312	\$ 4,694
2008	2,294	Quarterly	2,400	4,694
2009	2,191	Quarterly	2,505	4,696
2010	2,089	Quarterly	2,606	4,695
2011	1,983	Quarterly	2,711	4,694
2012	1,878	Quarterly	2,816	4,694
2013	1,759	Quarterly	2,936	4,695
2014	1,640	Quarterly	3,055	4,695
2015	1,516	Quarterly	3,180	4,696
2016	1,390	Quarterly	3,305	4,695
2017	1,252	Quarterly	3,443	4,695
2018	1,113	Quarterly	3,582	4,695
2019	967	Quarterly	3,728	4,695
2020	818	Quarterly	3,877	4,695
2021	658	Quarterly	4,036	4,694
2022	493	Quarterly	4,200	4,693
2023	324	Quarterly	4,370	4,694
2024	<u>53</u>	Quarterly	<u>4,317</u>	<u>4,370</u>
	<u>\$ 24,800</u>		<u>\$ 59,379</u>	<u>\$ 84,179</u>

City of Bangor
SCHEDULE OF DEBT RETIREMENT AND ANNUAL INTEREST
REQUIREMENTS (Continued)
June 30, 2006

PRIMARY GOVERNMENT (Continued)

Business-type activities:

\$150,000 3.50% 2003 Note payable, Bank

<u>Year ending June 30:</u>	<u>Interest requirements</u>	<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
2007	\$ 1,699	Quarterly	\$ 35,294	\$ 36,993
2008	463	Quarterly	26,548	27,011
	<u>\$ 2,162</u>		<u>\$ 61,842</u>	<u>\$ 64,004</u>

\$2,287,000 4.375% 2004 Sewage Disposal System Revenue Bonds

<u>Year ending June 30:</u>	<u>Interest requirements</u>	<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
2007	\$ 98,175	April	\$ 23,000	\$ 121,175
2008	97,169	April	24,000	121,169
2009	96,119	April	25,000	121,119
2010	95,025	April	27,000	122,025
2011	93,844	April	28,000	121,844
2012	92,619	April	29,000	121,619
2013	91,350	April	30,000	121,350
2014	90,038	April	32,000	122,038
2015	88,638	April	33,000	121,638
2016	87,194	April	35,000	122,194
2017	85,663	April	36,000	121,663
2018	84,088	April	38,000	122,088
2019	82,425	April	40,000	122,425
2020	80,675	April	41,000	121,675
2021	78,881	April	43,000	121,881
2022	77,000	April	45,000	122,000
2023	75,031	April	47,000	122,031
2024	72,975	April	49,000	121,975

City of Bangor**SCHEDULE OF DEBT RETIREMENT AND ANNUAL INTEREST
REQUIREMENTS (Continued)***June 30, 2006***PRIMARY GOVERNMENT (Continued)**

Business-type activities (continued):

\$2,287,000 4.375% 2004 Sewage Disposal System Revenue Bonds (continued)

<u>Year ending June 30:</u>	<u>Interest requirements</u>	<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
2025	\$ 70,831	April	\$ 51,000	\$ 121,831
2026	68,600	April	54,000	122,600
2027	66,238	April	56,000	122,238
2028	63,788	April	59,000	122,788
2029	61,206	April	61,000	122,206
2030	58,538	April	64,000	122,538
2031	55,738	April	67,000	122,738
2032	52,806	April	70,000	122,806
2033	49,744	April	73,000	122,744
2034	46,550	April	76,000	122,550
2035	43,225	April	80,000	123,225
2036	39,725	April	83,000	122,725
2037	36,094	April	87,000	123,094
2038	32,288	April	91,000	123,288
2039	28,306	April	95,000	123,306
2040	24,150	April	99,000	123,150
2041	19,819	April	104,000	123,819
2042	15,269	April	109,000	124,269
2043	10,500	April	113,000	123,500
2044	5,556	April	127,000	132,556
	<u>\$ 2,415,880</u>		<u>\$ 2,244,000</u>	<u>\$ 4,659,880</u>

City of Bangor

**SCHEDULE OF DEBT RETIREMENT AND ANNUAL INTEREST
REQUIREMENTS (Continued)**

June 30, 2006

DISCRETELY-PRESENTED COMPONENT UNIT:

Downtown Development Authority

\$154,000 5.50% 1994 Note payable, Bank

<u>Year ending June 30:</u>	<u>Interest requirements</u>	<u>Maturity date</u>	<u>Principal</u>	<u>Total requirements</u>
2007	\$ 1,658	Quarterly	\$ 13,486	\$ 15,144
2008	901	Quarterly	14,243	15,144
2009	<u>283</u>	Quarterly	<u>7,562</u>	<u>7,845</u>
	<u>\$ 2,842</u>		<u>\$ 35,291</u>	<u>\$ 38,133</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To the Honorable Mayor and Members of the City Council
City of Bangor, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bangor, Michigan, as of and for the year ended June 30, 2006, and have issued our report thereon dated December 15, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Bangor, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Bangor, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the City Council, management, and the U.S. Department of Agriculture, and is not intended to be, and should not be, used by anyone other than these specified parties.

Siegfried Crandall P.C.

December 15, 2006

EXPENDITURES OF FEDERAL AWARDS

City of Bangor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2006

<u>Federal grantor/program title</u>	<u>CFDA number</u>	<u>Funding source/ pass-through entity</u>	<u>Program year</u>	<u>Award</u>
U.S. Department of Agriculture:				
Direct programs:				
Rural Utilities Service:				
Water and Waste Disposal				
Systems for Rural Communities				
Grant	10.760			\$ 680,901
Loan	10.760			<u>2,244,000</u>
Total U.S. Department of Agriculture				2,924,901
U.S. Department of Housing and				
Urban Development:				
Pass through program:				
Community Development				
Block Grant				
MSC 201088-EDIG	14.228	Michigan Strategic Fund	May 1, 2005 to April 30, 2006	14,286
U.S. Department of Transportation:				
Federal Highway Administration:				
Highway Planning and				
Construction Agreement 05 5028	20.205	Michigan Department of Transportation		<u>137,617</u>
				<u>\$ 3,076,804</u>

Notes to schedule of expenditures of federal awards:

1. The schedule has been prepared on the accrual basis of accounting.
2. Corresponding amounts in the accompanying basic financial statements are as follows:

Federal grants:

Governmental funds (page 8)	\$ 151,903
Proprietary fund (page 12)	
Sewer Fund	680,901

Loans:

Proprietary fund (page 10)	
Sewer Fund	<u>2,244,000</u>

\$ 3,076,804

City of Bangor, Michigan
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of City of Bangor, Michigan.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of City of Bangor, Michigan were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award program were reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award program for City of Bangor, Michigan expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for City of Bangor, Michigan are reported in Part C of this Schedule.
7. The program tested as major program:

<u>Federal agency</u>	<u>Program name</u>	<u>CFDA #</u>
U.S. Department of Agriculture	Water and Waste Disposal Systems for Rural Communities	10.760

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. City of Bangor, Michigan was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

D. PRIOR YEAR FINDINGS

NONE

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

**To the Honorable Mayor and Members of the City Council
City of Bangor, Michigan**

Compliance

We have audited the compliance of City of Bangor, Michigan with the types of compliance requirements described in the U.S. Office of Management Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. City of Bangor, Michigan's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of City of Bangor, Michigan's management. Our responsibility is to express an opinion on City of Bangor, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Bangor, Michigan's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Bangor, Michigan's compliance with those requirements.

In our opinion, City of Bangor, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of City of Bangor, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Bangor, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the City Council, management, and the U.S. Department of Agriculture and is not intended to be, and should not be, used by anyone other than these specified parties.

Sigfried Crandall P.C.

December 15, 2006